

Michigan Department of Labor and Economic Growth

Jennifer M. Granholm, Governor

David C. Hollister, Director



www.michigan.gov/dleg

Michigan Liquor Control Commission

Annual Financial Report 2003



For Fiscal Year Ended September 30, 2003

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JENNIFER M. GRANHOLM
GOVERNOR



STATE OF MICHIGAN
LIQUOR CONTROL COMMISSION
DEPARTMENT OF LABOR AND ECONOMIC GROWTH
DAVID C. HOLLISTER, DIRECTOR

NIDA R. SAMONA
CHAIRPERSON



To the Citizens of Michigan and Other Readers:

The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits sold in Michigan. All profits and taxes collected from this wholesaling activity are returned to the people of Michigan through transfer to various state funds for appropriation by the Legislature. This Annual Financial Report is our accounting to you of the liquor wholesaling operation in Michigan, and related activity.

Our Liquor Internet Ordering website has now been in place for a year. We regularly are taking over 2,000 orders a month. We've listened to our customers who have so kindly given us suggestions for improvements to our Ordering website. We hope readers who are also licensees will try the Internet Liquor Ordering program. Licensees can also pay for spirits electronically. See our website or call us for details on how to take advantage of this timesaving program.

This Annual Financial Report has an informational section and a statement section. We are required by law to report on the activity of the Liquor Purchase Revolving Fund and the revenue our activities generate for the people of Michigan. We have selected other information to include because we think it will be of interest to our readers.

The Commission holds public hearings twice each year "... for the purpose of hearing complaints and receiving the views of the public with respect to the administration of this act." These hearings are required by law, and usually take place in July and December. You are cordially invited to attend our public hearings or to make comments to the Commission by other means. You may call our offices in Lansing at 517.322.1345 for the time and location of our next public hearing or email us at lccinfo@michigan.gov.

Our website contains a wealth of information. You can learn more about the liquor licensing process, see lists of licenses available, obtain forms, read our frequently asked enforcement questions, look at the Liquor Code and Rules, and much more. View our website at www.michigan.gov/dleg and click on "Liquor Control" in the left-hand column. We encourage you to visit our website anytime you have a question.

Sincerely,

A handwritten signature in cursive script that reads "Nida R. Samona".

Nida R. Samona, Chairperson

Executive Summary

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

The Michigan Liquor Control Commission's (MLCC) gross dollar sales were \$768.7 million for the fiscal year ended September 30, 2003. This represents a 5.1% increase from the previous fiscal year gross sales total of \$731.6 million.

During this period, the MLCC sold 255,385 more cases of liquor, which is a 4.6% increase in case sales from last year. The average price of each case sold increased by .4% over the prior year from \$133.10 to \$133.63.

Gross revenue from the sale of liquor (gross sales less licensee discounts and cost of goods sold) was \$172.1 million compared to the prior year of \$163.3 million. Income from the Liquor Purchase Revolving Fund, transferred to the General Fund, was \$130.5 million as shown on page 13. The transfers for grants of \$3,710,500 for 2003 and \$7,421,000 for 2002 are for Grants to Cities for Fire Protection.

In addition to the net income from liquor wholesaling operations, the MLCC collected \$168.3 million from specific taxes on liquor, license fees, fines and penalties, and beer and wine excise taxes. Combined with net profits from liquor operations, the Commission's total revenue for the fiscal year was \$286.2 million, which represents a 5.5% increase from the previous year.

Michigan licensees also shared in profits from the sales of liquor. The total amount of discounts allowed by the state reached \$130.7 million for the current fiscal year compared to \$124.4 million for the prior year. Off-premise licensees (SDDs) accounted for 79.3% or \$609.8 million of total liquor sales. On-premise licensees, such as bars, restaurants, hotels and clubs accounted for 20.5% or \$157.8 million of total liquor sales. Sales to other licensees accounted for .2% of total liquor sales.

Financial Highlights

REVENUE/EXPENSE ITEM	FY 2002-03 (In millions)	FY 2001-02 (In millions)	% INCREASE (DECREASE)
Gross Sales	\$768.7	\$731.6	5.1
Licensee Discounts	130.7	124.4	5.1
Cost of Goods Sold	465.9	443.9	4.9
Gross Revenue - Liquor	172.1	163.3	5.4
Operating Expenses ¹	55.5	57.0	(2.6)
Miscellaneous Revenue	1.3	1.8	(27.8)
Net Income (Not including taxes and grant) ²	117.9	108.1	9.1
Liquor Taxes	103.2	98.2	5.1
Other Revenue Collected	65.1	65.0	0.2
Total Net Revenue	286.2	271.3	5.5

NOTES:

(1) Operating Expenses do not include Liquor Purchase Revolving Fund transfers for grants. Licensing and Enforcement expenses attributable to General Fund are included in Operating Expenses.

(2) Net Income is computed after deducting all operating expenses including the General Fund portion of Licensing and Enforcement expenses. Net Income in the Liquor Purchase Revolving Fund is \$130.5 million.

OTHER MERCHANDISING STATISTICS	FY 2002-03	FY 2001-02	% INCREASE (DECREASE)
Number of Cases Sold	5,752,264	5,496,879	4.6
Average Price Per Case	\$133.63	\$133.10	.4
Items Available (brands and sizes)	4,781	4,658	2.6
Number of Bottles Sold	101,998,387	98,552,010	3.5
Average Price Per Bottle	\$7.54	\$7.42	1.6

APPARENT CONSUMPTION STATISTICS	FY 2002-03		FY 2001-02	
	Gallons	Per Capita ³	Gallons	Per Capita ³
Distilled Spirits	13,855,960	1.37	13,408,222	1.33
Mixed Spirit Drinks	272,701	.03	415,516	0.04
Wine (21% alcohol or less)	16,238,726	1.61	14,242,995	1.42
Beer	210,882,390	20.92	208,634,286	20.76

NOTE:

(3) Using estimated Michigan population as shown on page 9.

The MLCC

Michigan is one of 18 “control states” as related to the alcohol beverage industry. “Control State” means that state government is responsible for the sale and distribution of certain alcohol beverages as opposed to a license state where wholesale and retail sales of distilled spirits are done by private sellers.

Control states receive the markup revenues that would have otherwise been received by private sellers. They can use this revenue for state expenditures. Control states account for approximately one-third of the U. S. population.



Alabama	New Hampshire	Vermont
Idaho	North Carolina	Virginia
Iowa	Ohio	Washington
Maine	Oregon	West Virginia
Michigan	Pennsylvania	Wyoming
Mississippi	Utah	Montgomery Co. MD
Montana		

Michigan is the wholesaler of liquor in the state by law. It uses private Authorized Distribution Agents to carry out liquor distribution functions.

The MLCC is administered by five commissioners, appointed by the governor with the advice and consent of the Senate to four-year, rotating terms. The Chair of the Commission is selected by the Governor. Of the five members, no more than three can be of the same political party.

Two of the Commissioners (one Democrat and one Republican) serve as Hearing Commissioners and conduct hearings on violations of the Liquor Control Code and Administrative Rules of the Commission.

The remaining three Commissioners are designated as the Administrative Commissioners and are responsible for decisions and interpretation of the Liquor Control Code and Rules in the areas of licensing, enforcement, purchasing, merchandising and distribution. They also serve as an appeal board for decisions of the Hearing Commissioners and hear licensing appeals.

The MLCC has two offices, one in Lansing and one in Farmington. It employs five full-time directors to oversee the day-to-day operations of the Commission. The Commission staff is organized into five areas:

- **Assistant Attorney General:**
The Attorney General assigns the Liquor Control Division legal staff to the Commission. These Assistant Attorneys General review all violations for issuance of complaints, present all hearing cases to the Commission, and serve as the Commission's legal counsel.
- **Executive Services:**
This staff provides administrative support to the Commissioners in the areas of hearings, appeals, policy research and public affairs.
- **Financial Management:**
The Financial Management Division provides management support to the Commission in the areas of financial analysis; accounting; budget; tax collections for beer, wine, and spirits; forms; and telecommunications. The division also uses daily order quantities to purchase liquor for sale to licensees. Quotations for all items are processed, authorized for shipment approval, and priced in this division.
- **Licensing:**
The Licensing Division is responsible for preparing retail, wholesaler and manufacturer license applications for Commission actions, as well as issuing approved licenses and handling the subsequent renewals. The division approves labeling and advertising by manufacturers and wholesalers.
- **Enforcement:**
This division is responsible for the investigation of license applicants. The enforcement staff also investigates complaints against current licensees and periodically inspects licensed locations for violations of the Liquor Control Code.

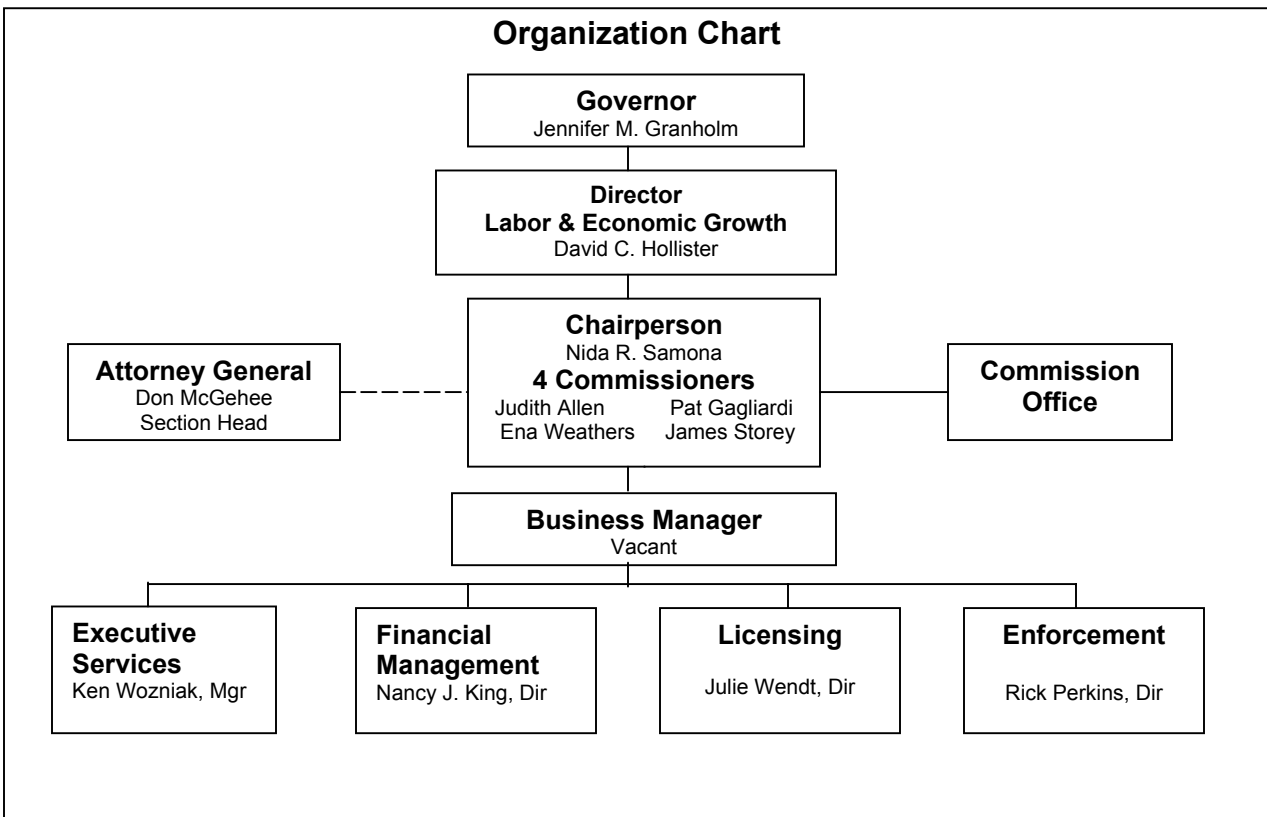
The Liquor Control Code

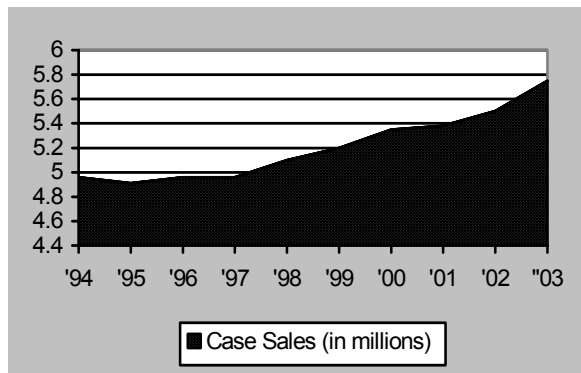
The Liquor Control Code, P.A. 58 of 1998, as amended, prescribes the duties and responsibilities of the Commission. The Liquor Control Code defines the various types of liquor licenses and the licensing requirements; the liquor markup rate, liquor discount rate, and tax rates; and the guidelines for operating licensed establishments.

In addition to the Liquor Control Code, the Commission is guided by its administrative rules, which are designed to carry out the laws and assure equal treatment. When filed with the Secretary of State, the rules have the effect of law and are binding on licensees of the MLCC.

MLCC Personnel (as of 9/30/2003)

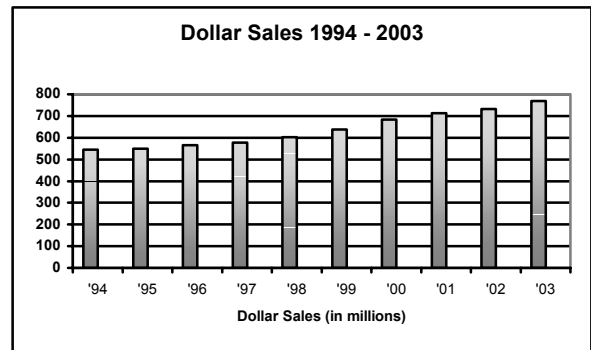
	<u>Full-Time Employees</u>	<u>Part-Time Employees</u>
Attorney General	4	0
Executive Services	15	1
Financial Management	19	0
Licensing	34	0
Enforcement	55	0





Case Sales

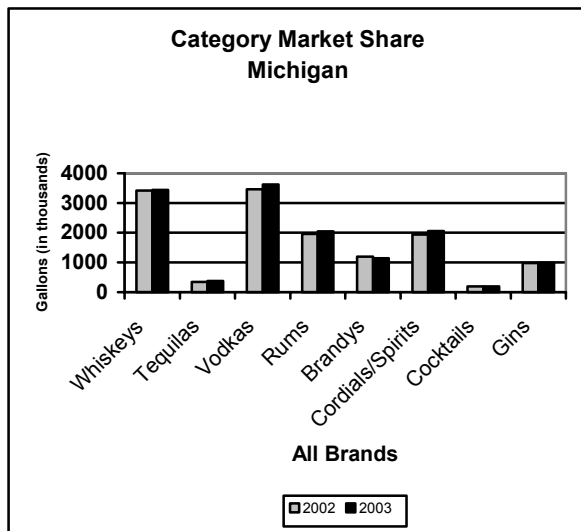
The 10-year case sales history graph shows an increase in case sales every year since FY 1995. This trend continued in 2002-2003 with sales of 5,752,264 cases. This is an increase of 17.1% above the FY 1995 case sales figure of 4,913,789.



Dollar Sales

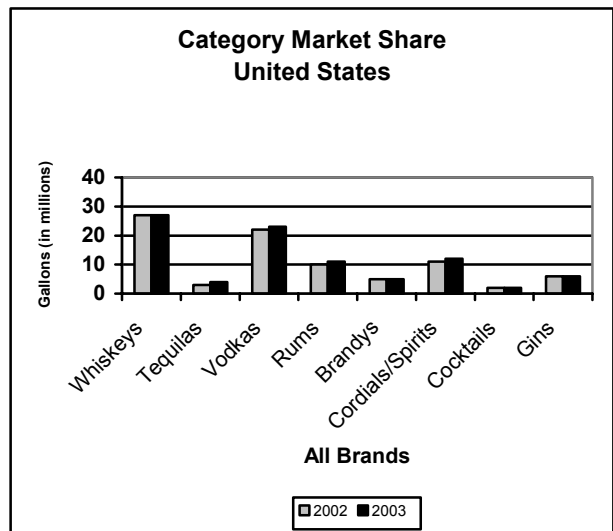
Since the 1995 fiscal year, there has been a 41.0% increase in dollar sales from \$545.0m in FY 1995 to \$768.7m in FY 2003.

These increases are accompanied by smaller case sales percentage increases. This could be due, in part, to people consuming more higher priced premium and super premium brand items.



Michigan Consumer Preference

As a Midwestern state, Michigan has its own unique preferences for types of alcohol beverages. Whiskeys and vodkas are strong sales categories with a 24.8% and 26.2% share, respectively. The remaining sales categories are cordials 14.8%, rum 14.7%, brandy 8.3%, gin 7.1%, tequila 2.7% and cocktails 1.4%.



U.S. Consumer Preference

Compared to Michigan's preferences, U. S. consumer preferences are very similar. Whiskeys and vodkas are the strongest sales categories with a 29.8% and 26.2% share, respectively. The remaining sales categories are as follows: cordials 13.3%, rums 11.9%, gins 7.1%, brandys 5.3%, tequilas 3.7% and cocktails 2.7%.

Distilled Spirits

The Michigan Liquor Control Commission is, by law, the wholesaler of all spirits in Michigan. Suppliers request approval from the Commission to have products available for sale in Michigan, distributed by the Commission.

There are over 4,700 products available for sale by the Commission. The Commission's Liquor Price List is available on the Internet at: <http://www.michigan.gov/dleg>. Click on "Liquor Control" from the list on the left of the screen. Then select "Products" from the next list.

Licensees may order their distilled spirits through the State's Internet ordering system. They may also order through individual Authorized Distribution Agents (ADAs). There are currently four ADAs: General Wine and Liquor, National Wine and Spirits, Trans-Con, and Chinese Import & Export.

The ADAs assemble and deliver orders to the licensees on behalf of the Liquor Control Commission. Licensees receive free delivery once a week provided they meet the one case minimum order requirement and adhere to order day assignments.

All proceeds from the sale of liquor go to the State of Michigan, and all profits are transferred to the State Treasury.

The Michigan Liquor Control Commission PRICE ANALYSIS OF SAMPLE 750 ml SPIRITS Retail Price to Consumer with 65% Markup by MLCC = \$9.49

Liquor Tax	\$1.14
Distribution	
1.85% Specific Tax (Substance Abuse)	.15
4% Specific Tax (Convention Facilities)	.33
4% Specific Tax (School Aid)	.33
4% Specific Tax (General Fund)	.33

Licensee Profit	\$1.42
(through discount)	

LCC Profit	\$1.89
(Net after Licensee discount)	

Federal Excise Tax	\$2.14
(\$13.50 per proof gallon, paid by distillery or importer)	

Distillery or Importer	\$2.90
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TOTAL PRICE:	\$9.49
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<u>Cost of Distribution</u>	<u>Amount</u>	<u>% of Total</u>
Federal Government	2.14	22.5
Distillery	2.90	30.6
State Government:		
MLCC	1.89	19.9
Specific Taxes	1.14	12.0
Liquor License Profit (Discount)	1.42	15.0
TOTAL	\$9.49	100.0

Beer - Wine - Mixed Spirits

The wholesaler market for beer, wine and mixed spirit drinks is a franchised market in Michigan. Territorial agreements are made between supplier and wholesaler to cover the specific geographic areas of the state.

Tax Rate by Type of Alcohol Beverage

Beer -----	\$6.30 per 31 gallon barrel, pro-rated
Wine -----	\$.135 per liter (16% alcohol or less by volume)
	\$.20 per liter (more than 16% alcohol by volume)
Mixed Spirit Drinks -----	\$.48 per liter

1993-2003 Michigan Apparent Per Capita Alcohol Beverage Consumption in Gallons

Year	Population (Estimated)	Beer	Spirits	Wine	Mixed Spirit Drinks
1993	9,459,667	22.18	1.41	1.24	0.04
1994	9,491,836	21.93	1.32	1.26	0.04
1995	9,537,948	21.87	1.30	1.31	0.03
1996	9,594,350	21.49	1.30	1.36	0.04
1997	9,779,984	20.84	1.26	1.35	0.03
1998	9,817,242	21.02	1.28	1.41	0.03
1999	9,864,000	21.04	1.30	1.41	0.04
2000	9,938,000	21.15	1.33	1.50	0.05
2001	10,006,000	21.11	1.32	1.47	0.05
2002	10,050,000	20.76	1.33	1.42	0.04
2003	10,080,000	20.92	1.37	1.61	0.03

Per Capita Consumption

Apparent per capita consumption (volume consumed divided by the estimated population) is often used to determine consumer preferences among the types of alcohol beverages as well as being associated with public health and safety statistics.

In Michigan, the apparent per capita consumption for beer in Fiscal Year 2002-03 was 20.92 gallons, spirits totaled 1.37 gallons, wine was 1.61 gallons and mixed spirit drinks totaled .03 gallons per capita.

MLCC TAX AND SALES STATISTICS

<u>Collection of Taxes</u>				<u>Sales in Barrels/Liters</u>			
	<u>2002-03</u>	<u>2001-02</u>	<u>Increase/ (Decrease)</u>		<u>2002-03</u>	<u>2001-02</u>	<u>Increase/ (Decrease)</u>
Beer	\$42,688,752	\$42,197,253	\$ 491,499	Barrels of Beer	6,802,658	6,730,138	72,520
Wine	8,425,624	7,814,836	610,788	Liters of Wine	61,471,699	53,916,859	7,554,840
MSD*	510,288	773,839	(263,551)	Liters of MSD*	1,032,309	1,572,937	(540,628)
TOTAL	\$51,624,664	\$50,785,928	\$ 838,736				

* Mixed Spirit Drinks

Licensing

The Michigan Liquor Control Commission licenses all retailers, wholesalers and other individuals or businesses involved in the manufacture, purchase, sale, or use of alcohol beverages.

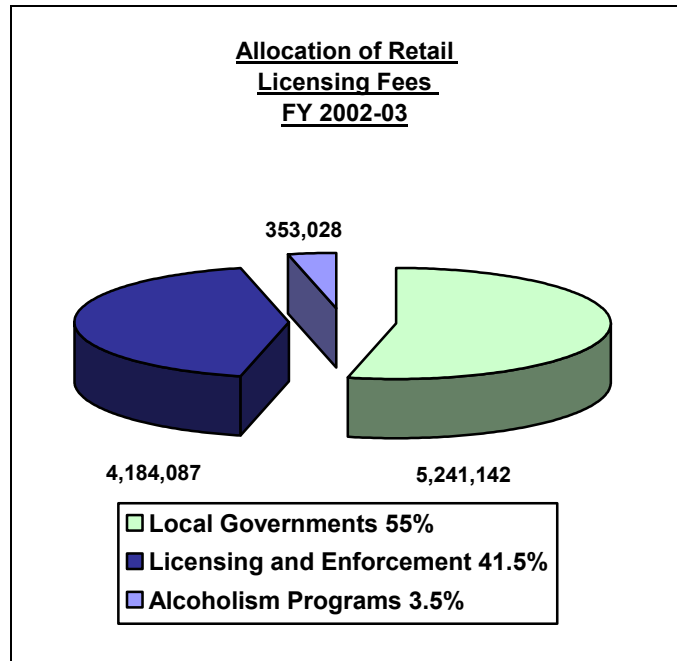
Over 16,000 retail businesses, including bars, grocery stores, restaurants, hotels, convenience stores and pharmacies have one or more active licenses to sell alcohol beverages. The MLCC also issues special licenses to non-profit organizations for fundraising events.

In addition to retail licenses, the MLCC had almost 6,600 issued licenses to manufacturers and other agents. All retail licenses, and most non-retail licenses, must be renewed no later than April 30th of each year.

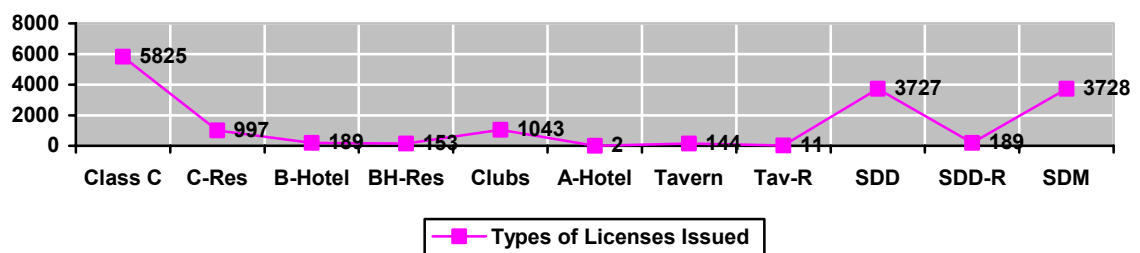
The types of licenses available and licensing requirements are set by state law and the administrative rules of the Commission. The number of certain types of licenses available is governed by population quota for the local governmental unit.

Retail license fees are distributed according to state statute. As shown above, 55% of the returnable retail licensing fees collected by the MLCC are earmarked for local governments. The MLCC collected \$11.6 million in retail license and transfer fees in fiscal year 2002-03. This amount included \$9,778,257 in returnable retail license fees.

The Michigan Grape and Wine Industry Council receives the non-retail license fees collected by the MLCC amounting to \$426,877 this fiscal year.



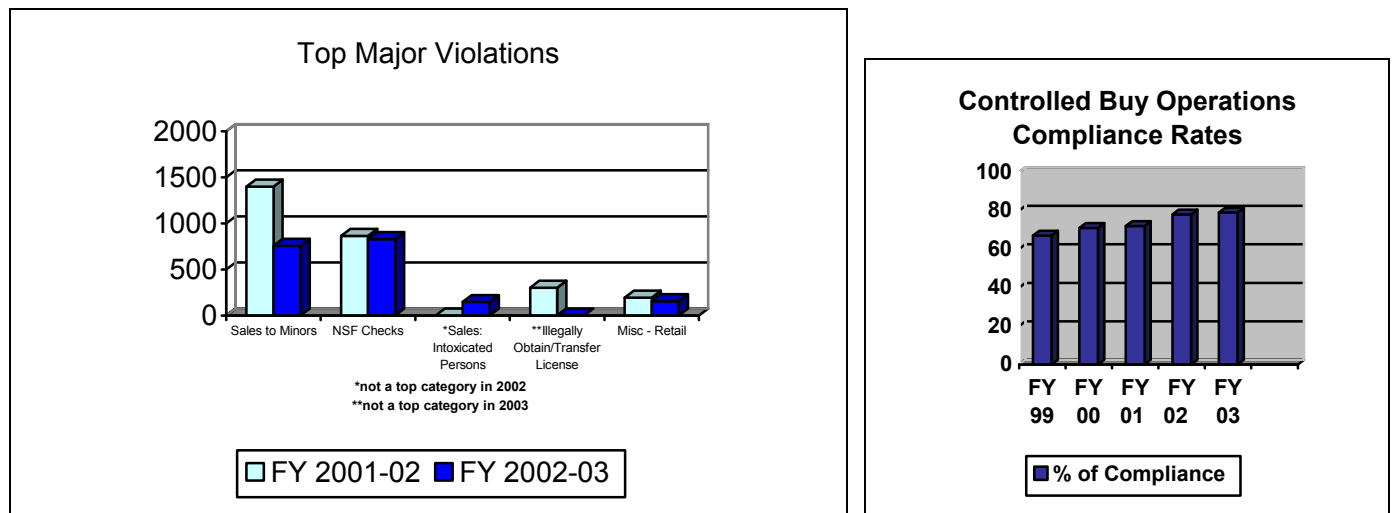
Active Retail Liquor Licenses



On-Premise Consumption: Class C /C-Resort (bars & restaurants), B-Hotel/B-Hotel Resort, Clubs (membership) - liquor by the glass, beer, wine, MSD; A-Hotel, Tavern, Tavern-Resort – beer/wine only
Off-Premise Consumption: SDD, SDD-Resort – package liquor take out; SDM – beer/wine take out

Enforcement

The Enforcement staff is responsible for investigating applicants for liquor licenses and assisting local, county and state law enforcement agencies with the enforcement of Michigan's liquor laws. Local law enforcement agencies submitted 829 liquor law violation reports in Fiscal Year 2002-2003. MLCC enforcement investigators submitted 1,535 violation reports in Fiscal Year 2002-2003.



The MLCC's enforcement officers regularly conduct surveillance operations in licensed premises as part of their efforts to ensure that the state's liquor laws and MLCC rules are being adhered to by liquor licensees. Their efforts to serve the citizens of the state often go unnoticed due to the nature of their job.

The Enforcement Division also conducts controlled buy operations, also called decoy sting operations. During a controlled buy operation a minor will attempt to purchase alcohol from a retailer while the transaction is observed by an undercover enforcement officer. A sale results in a violation of the liquor law and subsequent fine. The Commission has a policy of zero tolerance for sale of alcohol to minors and uses the controlled buy operation as a tool to reinforce this commitment.

During Fiscal Year 2002-03, MLCC enforcement officers conducted 1,752 controlled buy operations and wrote 336 violations for selling to minors, meaning 21% of stops resulted in a violation. This compares to last fiscal year, when 22% of controlled buys resulted in a violation.

The Enforcement staff is involved in training programs to meet the needs of retail licensees, beer and wine wholesalers, and law enforcement agencies.

Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

FINANCIAL REPORTS FOR THE LIQUOR

PURCHASE REVOLVING FUND

(Unaudited)

For the Fiscal Year Ended September 30, 2003

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**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
COMPARATIVE STATEMENT OF NET ASSETS
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Imprest Cash	\$700	\$700
Equity in Common Cash	55,327,347	51,562,770
Liquor Inventory	3,661,499	3,393,545
Prepaid Distribution Costs of Inventory	294,293	260,960
Other Assets	<u>3,520,780</u>	<u>5,064,968</u>
TOTAL ASSETS	<u>\$62,804,619</u>	<u>\$60,282,943</u>
LIABILITIES & FUND EQUITY		
CURRENT LIABILITIES		
Warrants Outstanding	\$8,071,611	\$6,753,421
Accounts Payable and Other Liabilities	49,336,571	48,095,961
Amount Due to Other Funds	43,268	54,322
Current Compensated Absences	<u>224,271</u>	<u>325,118</u>
TOTAL CURRENT LIABILITIES	\$57,675,721	\$55,228,822
LONG-TERM LIABILITIES		
Long Term Compensated Absences	<u>253,160</u>	<u>178,384</u>
TOTAL LIABILITIES	<u>\$57,928,881</u>	<u>\$55,407,206</u>
NET ASSETS		
Unrestricted	<u>\$4,875,739</u>	<u>\$4,875,739</u>
TOTAL NET ASSETS	<u><u>\$4,875,739</u></u>	<u><u>\$4,875,739</u></u>

The Notes To Financial Statements section is an integral part of these financial statements.

MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FISCAL YEARS ENDED SEPTEMBER 30

	2003	2002
OPERATING REVENUES		
TOTAL GROSS SALES	\$768,670,331	\$731,648,991
Less: Discounts Allowed	<u>130,723,434</u>	<u>124,455,852</u>
PROCEEDS - SALE OF LIQUOR	\$637,946,897	\$607,193,139
MISCELLANEOUS REVENUE	<u>222,892</u>	<u>219,881</u>
TOTAL OPERATING REVENUES	<u>\$638,169,789</u>	<u>\$607,413,020</u>
OPERATING EXPENSES		
Cost of Goods Sold	\$465,842,134	\$443,885,470
Distribution Costs Paid to Suppliers	37,262,090	34,857,184
Commission	385,300	377,700
Management Support	2,309,728	2,565,783
Licensing and Enforcement (1)	3,240,535	4,379,518
Compensated Absences	(26,071)	(776,226)
DLEG Operating Expenses	<u>6,228,806</u>	<u>9,406,325</u>
TOTAL OPERATING EXPENSES	<u>\$515,242,522</u>	<u>\$494,695,754</u>
OPERATING INCOME (LOSS)	<u>\$122,927,267</u>	<u>\$112,717,266</u>
NONOPERATING REVENUES (EXPENSES)		
Specific Tax, Liquor 1.85%	\$11,296,951	\$10,707,391
Interest Revenue	1,099,058	1,561,844
Non-Operating Revenue	<u>28</u>	<u>8,356</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$12,396,037</u>	<u>\$12,277,591</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>\$135,323,304</u>	<u>\$124,994,857</u>
TRANSFERS		
Income Transferred to General Fund	(\$130,547,661)	(\$116,441,671)
Prior Year Earnings Transferred to General Fund	0	(1,800,000)
Other Transfers	<u>(4,775,643)</u>	<u>(8,553,186)</u>
TOTAL TRANSFERS IN (OUT)	<u>(\$135,323,304)</u>	<u>(\$126,794,857)</u>
CHANGE IN NET ASSETS	\$0	(\$1,800,000)
TOTAL NET ASSETS - BEGINNING OF FISCAL YEAR	<u>4,875,739</u>	<u>6,675,739</u>
TOTAL NET ASSETS - END OF FISCAL YEAR	<u>\$4,875,739</u>	<u>\$4,875,739</u>

Notes:

(1) Includes the Revolving Fund portion only.

The Notes To Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
STATEMENT OF CHANGES IN ASSETS AND TRANSFERS
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2003</u>	<u>2002</u>	<u>INCREASE (DECREASE)</u>
ASSETS AVAILABLE			
Beginning Assets	\$4,875,739	\$6,675,739	(\$1,800,000)
Total Operating Revenues	638,169,789	607,413,020	30,756,769
Total Non-Operating Revenues	<u>12,396,037</u>	<u>12,277,591</u>	<u>118,446</u>
Total Assets Available	<u>\$655,441,565</u>	<u>\$626,366,350</u>	<u>\$29,075,215</u>
ALLOCATION OF ASSETS			
Income Transferred to General Fund	\$130,547,661	\$116,441,671	\$14,105,990
Prior Year Earnings Transferred to General Fund	0	1,800,000	(1,800,000)
Other Transfers	4,775,643	8,553,186	(3,777,543)
Total Operating Expenses	<u>515,242,522</u>	<u>494,695,754</u>	<u>20,546,768</u>
Total Allocation of Assets	<u>\$650,565,826</u>	<u>\$621,490,611</u>	<u>\$29,075,215</u>
Ending Assets	<u><u>\$4,875,739</u></u>	<u><u>\$4,875,739</u></u>	<u><u>\$0</u></u>

The Notes To Financial Statements section is an integral part of these financial statements.

**MICHIGAN LIQUOR CONTROL COMMISSION
LIQUOR PURCHASE REVOLVING FUND
STATEMENT OF CHANGES IN CASH FLOW
FISCAL YEAR ENDED SEPTEMBER 30, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES	NET CHANGE
Receipts from Customers	\$638,169,788
Payments to Employees and for Administrative Expenses	(10,757,899)
Payments to Suppliers	(502,157,639)
Other Receipts	1,510,856
Other Payments	(1,391,452)
Net Cash Provided (Used) by Operating Activities	<u>\$125,373,654</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating Revenues	\$28
Specific Tax on Spirits	11,296,951
Transfers to Other Funds	(135,323,304)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(\$124,026,325)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$0</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends on Investments	\$1,099,058
Net Cash Provided (Used) by Investing Activities	<u>\$1,099,058</u>
Net Cash Provided (Used)-All Activities	\$2,446,387
Cash and Cash Equivalents at Beginning of Year	44,810,049
Cash and Cash Equivalents at End of Year	<u>\$47,256,436</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Per Statement of Net Assets Calculations:	
Cash	\$700
Equity in Common Cash	55,327,347
Warrants Outstanding	(8,071,611)
Cash and Cash Equivalents at End of Year	<u>\$47,256,436</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$122,927,267
Net Changes in Assets and Liabilities:	
Inventories	(267,954)
Other Assets (Net)	1,510,856
Accounts Payable and Other Liabilities	1,203,486
Net Cash Provided (Used) by Operating Activities	<u>\$125,373,654</u>

The Notes To Financial Statements section is an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. Significant Accounting Policies

A. Reporting Entity

These financial statements reflect the results of the Liquor Purchase Revolving Fund financial transactions. The Michigan Liquor Control Commission, in the Department of Labor and Economic Growth (DLEG), is primarily responsible for the fund.

The Liquor Purchase Revolving Fund was authorized by P.A. 259 of 1941. Under state monopoly, liquor is sold at wholesale by the State of Michigan, and at retail through various licensees. The State began using Authorized Distribution Agents to warehouse and deliver liquor on January 23, 1997. The fund accounts for the sale, replenishing and transportation of the liquor stock from the suppliers to the retail licensees.

As required by statute, the net income earned by the Liquor Purchase Revolving Fund is transferred to the General Fund throughout the year.

The notes accompanying these financial statements relate directly to the Liquor Purchase Revolving Fund. The State of Michigan Comprehensive Annual Financial Report provides general disclosures regarding the State Treasurer's common cash fund, retirement benefits, worker's compensation, unemployment compensation and litigations.

Amounts may not match between schedules due to rounding.

B. Basis of Accounting

The financial data presented in the Liquor Purchase Revolving Fund reports have been prepared on an accrual basis in accordance with all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

C. Inventory

Inventory is stored and handled by private Authorized Distribution Agents on behalf of the Commission. The inventory is valued at the latest quoted price. Inventory is purchased daily in amounts sufficient to fill the orders received the prior day.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. Retirement Contributions

All classified Liquor Control Commission employees are members of the State Employees Retirement System. During the 2003 fiscal year, \$1,087,941.65 was paid into the Retirement Fund on behalf of the employees. All new employees hired after March 30, 1997 participate in a defined contribution plan. Employees hired before March 30, 1997 are covered by a defined benefits plan unless they chose to convert to the defined contribution plan during 1997.

NOTE 3. Employees' Compensation, Absences and Longevity Benefits

The amounts owed for accumulated leave benefits and longevity are recorded as a liability in these financial reports. Salaries, wages and employee benefits are appropriated in and paid from the Liquor Purchase Revolving Fund.

NOTE 4. Interest Earnings

For investment purposes, the Liquor Purchase Revolving Fund is kept in the State Treasurer's Common Cash Pool. The Liquor Purchase Revolving Fund began receiving credit for the interest earned on its cash balances deposited with the State Treasurer effective April 14, 1998.

NOTE 5. Distribution Costs Paid to Suppliers

This is the amount paid directly to the liquor suppliers by the MLCC for the Authorized Distribution Agents' warehousing and delivery of spirits to retail licensees. The MLCC paid \$6.40 per case for each case purchased through February 1, 2003. The suppliers were required to add \$1.08 per case to the state's payment and pay at least \$7.48 per case to the Commission's Authorized Distribution Agents.

On February 2, 2003, the amount the MLCC paid per case increased by \$.12 to \$6.52. Combined with the \$1.08 per case the suppliers were required to pay, the Authorized Distribution Agents then realized at least \$7.60 per case.

Michigan Department of Labor and Economic Growth

LIQUOR CONTROL COMMISSION

Other Financial Schedules – All Funds

For the Fiscal Year Ended September 30, 2003

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**MICHIGAN LIQUOR CONTROL COMMISSION
ALL FUNDS
COMPARATIVE SCHEDULE OF OPERATIONS
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>2003</u>	<u>2002</u>	<u>INCREASE (DECREASE)</u>
LIQUOR SALES			
TOTAL GROSS SALES (1)	\$768,670,331	\$731,648,991	\$37,021,340
Less: Discounts Allowed	<u>130,723,434</u>	<u>124,455,852</u>	<u>6,267,582</u>
PROCEEDS - SALE OF LIQUOR	\$637,946,897	\$607,193,139	\$30,753,758
Less: Cost of Goods Sold	<u>465,842,134</u>	<u>443,885,470</u>	<u>21,956,664</u>
GROSS REVENUE FROM SALE OF LIQUOR	<u>\$172,104,763</u>	<u>\$163,307,669</u>	<u>\$8,797,094</u>
OTHER REVENUE			
Miscellaneous Revenue	\$222,892	\$219,881	\$3,011
Non-Operating Revenue	28	8,356	(8,328)
Interest Revenue	<u>1,099,058</u>	<u>1,561,844</u>	<u>(462,786)</u>
TOTAL OTHER REVENUE	<u>\$1,321,978</u>	<u>\$1,790,081</u>	<u>(\$468,103)</u>
TOTAL REVENUE	\$173,426,741	\$165,097,750	\$8,328,991
Less: Distribution Costs Paid to Suppliers	<u>37,262,090</u>	<u>34,857,184</u>	<u>2,404,906</u>
INCOME FROM LIQUOR MERCHANDISING	<u>\$136,164,651</u>	<u>\$130,240,566</u>	<u>\$5,924,085</u>
MANAGEMENT EXPENSES			
Commission and DLEG Administration	\$385,300	\$377,700	\$7,600
Management Support (2)	2,465,515	2,895,964	(430,449)
Licensing and Enforcement (2)	8,910,557	10,048,474	(1,137,917)
DLEG Services (Excluding MLCC Rent)	9,184,151	15,908,369	(6,724,218)
Attorney General	821,023	863,225	(42,202)
Auditor General	63,300	87,000	(23,700)
Civil Service - Personnel	180,820	181,959	(1,139)
Compensated Absences	(26,071)	(776,226)	750,155
Less: Transfers Not Related to MLCC Operations (3)	<u>3,710,500</u>	<u>7,421,000</u>	<u>(3,710,500)</u>
TOTAL MANAGEMENT EXPENSES	<u>\$18,274,095</u>	<u>\$22,165,466</u>	<u>(\$3,891,371)</u>
INCOME FROM OPERATIONS (Excluding Taxes and Grants)	\$117,890,556	\$108,075,100	\$9,815,456
Specific Tax, Liquor 1.85% (Off Premise)	11,296,951	10,707,391	589,560
Revenue Collected for Other Funds	<u>156,971,678</u>	<u>152,563,576</u>	<u>4,408,102</u>
TOTAL CURRENT EARNINGS AND REVENUE	<u>\$286,159,185</u>	<u>\$271,346,067</u>	<u>\$14,813,118</u>
Number of Cases Sold	5,752,264	5,496,879	255,385
Number of Sales Days	261	261	0

Notes:

(1) This figure is comprised of:

Off Premise	\$609,783,017	\$578,232,645	\$31,550,372
On Premise	157,772,887	152,438,279	5,334,608
Other	1,114,427	978,067	136,360

(2) Total expenses per page 20 less any equipment purchases.

(3) Grants to Cities - Fire Protection

MICHIGAN LIQUOR CONTROL COMMISSION
ALL FUNDS
COMPARATIVE SCHEDULE OF REVENUE COLLECTED
FISCAL YEARS ENDED SEPTEMBER 30

	<u>2003</u>	<u>2002</u>	<u>INCREASE (DECREASE)</u>
GENERAL FUND - GENERAL PURPOSE			
Excise Tax, Beer	\$42,688,752	\$42,197,253	\$491,499
Specific Tax, Liquor 4%	30,604,622	29,141,385	1,463,237
Excise Tax, Wine	8,425,624	7,814,836	610,788
Excise Tax, Mixed Spirit Drink	510,288	773,839	(263,550)
Fines & Costs	949,931	1,362,297	(412,365)
Miscellaneous Revenue	37,088	42,654	(5,566)
TOTAL GENERAL FUND - GENERAL PURPOSE	<u>\$83,216,306</u>	<u>\$81,332,264</u>	<u>\$1,884,042</u>
GENERAL FUND - RESTRICTED			
RETAIL LICENSE FEES:			
55% To Local Governments	\$5,241,142	\$5,418,676	(\$177,534)
41.5% To Licensing & Enforcement	4,184,087	4,156,213	27,874
3.5% To Alcoholism Prevention Programs	353,028	350,523	2,505
License Transfer Fees	565,909	666,065	(100,156)
Sunday Sales Fees	1,298,803	1,297,021	1,782
Non-Retail License Fees-Wine Industry Council	426,877	577,785	(150,908)
Liquor Control Act Sales	5,475	5,150	325
Inspection Fees	297,343	316,253	(18,909)
Specific Tax, Liquor 4%-Tourism & Conv. Facility	30,712,901	29,241,688	1,471,213
Miscellaneous Revenue	65,184	60,552	4,632
TOTAL GENERAL FUND - RESTRICTED	<u>\$43,150,749</u>	<u>\$42,089,926</u>	<u>\$1,060,823</u>
SCHOOL AID FUND			
Specific Tax, Liquor 4%	\$30,604,622	\$29,141,385	\$1,463,237
TOTAL SCHOOL AID FUND	<u>\$30,604,622</u>	<u>\$29,141,385</u>	<u>\$1,463,237</u>
OTHER FUNDS REVENUE	<u>\$156,971,678</u>	<u>\$152,563,576</u>	<u>\$4,408,102</u>
LIQUOR PURCHASE REVOLVING FUND			
Specific Tax, Liquor 1.85% (Off Premise)	\$11,296,951	\$10,707,391	\$589,560
Income From Operations (Excluding Taxes & Grants) (1)	117,890,556	108,075,100	9,815,456
LIQUOR PURCHASE REVOLVING FUND REVENUE	<u>\$129,187,507</u>	<u>\$118,782,491</u>	<u>\$10,405,016</u>
 TOTAL REVENUE COLLECTED	 <u><u>\$286,159,185</u></u>	 <u><u>\$271,346,067</u></u>	 <u><u>\$14,813,118</u></u>

Note:

(1) Income from Operations (Page 18) after all operating expenses including General Fund portion of Licensing and Enforcement.

**MICHIGAN LIQUOR CONTROL COMMISSION
ALL FUNDS
SCHEDULE OF EXPENSES BY TYPE AND ACCOUNT
FISCAL YEARS ENDED SEPTEMBER 30**

	<u>COMMISSION</u> (1)	<u>MANAGEMENT SUPPORT</u>	<u>LICENSING & ENFORCEMENT</u>	<u>TOTAL 2003</u>	<u>TOTAL 2002</u>
MLCC APPROPRIATED EXPENSES					
Salaries & Wages	\$406,638	\$1,223,760	\$5,210,781	\$6,841,179	\$7,671,991
Longevity & Insurance	0	293,332	963,785	1,257,117	1,351,163
Retirement & FICA	0	401,748	1,283,364	1,685,112	1,576,127
Subtotal	<u>\$406,638</u>	<u>\$1,918,840</u>	<u>\$7,457,930</u>	<u>\$9,783,408</u>	<u>\$10,599,281</u>
Communications	\$0	\$39,975	\$110,751	\$150,726	\$126,895
Travel	0	53,519	272,302	325,821	362,540
Utilities	0	12,338	3,631	15,969	16,375
Contractual Services	0	153,693	316,277	469,970	910,497
Supplies & Materials	0	117,078	87,957	205,035	210,630
Equipment Replacement, Additions & Rentals	0	14,286	62,342	76,627	180,215
Misc - Unemployment Insurance Claims	0	0	0	0	0
Subtotal	<u>\$0</u>	<u>\$390,889</u>	<u>\$853,260</u>	<u>\$1,244,148</u>	<u>\$1,807,152</u>
TOTAL MLCC APPROPRIATED EXPENSES	<u>\$406,638</u>	<u>\$2,309,729</u>	<u>\$8,311,190</u>	<u>\$11,027,556</u>	<u>\$12,406,433</u>
OPERATING TRANSFERS OUT & OTHER EXPENSES					
Rent and Building Occupancy (2)	\$0	\$155,786	\$599,368	\$755,154	\$918,956
Other Operating Transfers Out (3)	0	0	0	10,249,294	17,040,553
Depreciation of Fixed Assets (4)	0	0	0	0	0
TOTAL OPERATING TRANSFERS OUT & OTHER EXPENSES	<u>\$0</u>	<u>\$155,786</u>	<u>\$599,368</u>	<u>\$11,004,448</u>	<u>\$17,959,509</u>
GRAND TOTAL	<u><u>\$406,638</u></u>	<u><u>\$2,465,515</u></u>	<u><u>\$8,910,558</u></u>	<u><u>\$22,032,004</u></u>	<u><u>\$30,365,942</u></u>

Notes

- (1) Fringe benefits and other expenses are reported in Management Support as appropriated by the Legislature.
(2) Rent and Building Occupancy amounts are appropriated in Management Services, Department of Labor and Economic Growth.
(3) Transfer amounts are appropriated in other departments and bureaus. They are not allocated to the divisions but are included in the totals.
(4) Depreciation charges are not allocated to divisions but are included in the totals.